

**U.S. House Committee on Natural Resources**  
**February 11, 2020 Hearing:**  
***Policy Priorities for the Administration's FY2021 Budget for the Insular Areas***  
**Questions for the Record Submitted to the**  
**Honorable Arnold I. Palacios, Lt. Governor (CNMI)**

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**Questions from Rep. Joe Neguse**

1. Governor, you know better than us that healthy coral reefs protect your islands from coastal erosion and storm damage among other beneficial effects. But these precious resources have been experiencing a variety of threats including poor water quality, over-harvesting, coastal development, disease and bleaching. The Office of Insular Affairs ("OIA") has supported coral reef initiatives on your islands in the past under recommendations from the Coral Reef Task Force. However, for FY2021, OIA is proposing cuts to their Coral Reef Initiative by more than 65%.
  - a. How will such a drastic cut affect your natural resources managers' ability to control and eradicate invasive species and protect your fragile environments?

**The CNMI immensely values its coral reefs and continues to implement management efforts that support its sustained use and conservation as it is a significant part of the Commonwealth's culture. Unfortunately, these critical habitats face multiple threats that continue to place severe stress upon one of the CNMI's most valued resources. These threats grow exponentially as the CNMI sees its population increase, its tourism market thrive, and coastal development climb.**

**To address such threats such as coral bleaching and diseases, invasive species, and physical damage, the CNMI's natural resource managers rely on its partnership with the Department of the Interior's Office of Insular Affairs to carry out various management actions and plans specifically crafted to address the declining health of the CNMI's coral reefs. Previous grants awarded to the CNMI through OIA's Coral Reef Initiative (now the Coral Reef and Natural Resource Initiative) have gone towards projects such as developing Conservation Action Plans and Watershed Management Plans for the CNMI priority watersheds, behavior change campaigns to raise awareness and promote sustainability and green lifestyles, building local capacity in coral reef management, and coral reef restoration work.**

**As the United States Coral Reef Task Force's co-chair, the Department of Interior has been an invaluable partner to the CNMI, assisting the jurisdiction to address these various threats to our most precious resource. Currently, DOI is providing funding to the CNMI to implement restoration activities as a more proactive**

**approach towards coral reef management. The successful establishment of a state-managed in-water coral nursery will allow the CNMI to eventually outplant coral fragments that are proven to be more resilient to climate change and restore degraded or damaged reefs around the islands.**

b. Are there particular environment or wildlife challenges that Congress can be helpful to you in addressing? Is the Department of Interior being responsive to your needs? What is the most pressing of those that is not currently funded at necessary levels?

**OIA had previously supported the Micronesia Challenge – a shared commitment between the Federated States of Micronesia, the Republic of the Marshall Islands, the Republic of Palau, Guam, and the CNMI to effectively conserve at least 30% of near-shore resources and 20% of terrestrial resources across Micronesia by 2020. In 2019, the Chief Executives of the Micronesian jurisdictions renewed their commitment to the Micronesia Challenge by extending and expanding their goal of conservation to be met by 2030. Continued funding support for this initiative will be helpful toward achieving this collective effort.**

#### **Questions from Vice Chair Gregorio Kili Sablan**

1. The Interagency Group on Insular Areas was created to "solicit information and advice from the elected leaders of the U.S. Insular Areas" and make recommendations to the President to address appropriate issues regarding federal programs. Do you believe the Executive Branch is doing enough to address your concerns?

**The annual IGIA Senior Plenary Meeting serves an integral forum for insular area leaders to bring awareness to the critical issues faced by the Territories. These annual meetings provide a great opportunity to directly engage with federal departments and agencies on the needs and concerns of federal programs in the insular areas.**

2. Are there any specific issues you think Congress needs to address?

**Paramount among our many pressing issues is the state of the economy in the aftermath of Super Typhoon Yutu in 2018 and the outbreak of the novel coronavirus which has severely impacted vital tourism arrivals. Throughout the many actions in the past several years, Congress has shown a willingness to understand the unique circumstances the CNMI faces in establishing and maintaining a viable and functioning economy. If Congress were to look at the totality of our circumstances with objectivity of the present facts, it would be apparent that much needs to be done to mitigate the ever-present and high probability of economic collapse that we**

**contend with on a near constant basis. We cannot maintain a long-term growth trajectory while remaining at the edge of a cliff. Small changes around the world can result in catastrophic repercussions to our economy. Congress should recognize that we are not similar to the states in this regard, and to see stability in this region, greater emphasis on developing a more diversified and sustainable economy is an absolute requirement.**

**As the CNMI government has stated before, the CW-1 program is crucial toward obtaining the necessary labor to grow our economy. That is still true today, and the opportunity to obtain that growth is affected by several provisions contained in the Northern Mariana Islands U.S. Workforce Act. These concerns I have outlined in my submitted testimony.**

**Further, however, the CNMI needs additional federal government support in ensuring long-term competitiveness of our industries against regional and international destinations. Greater emphasis should be added toward crafting national legislation that drives U.S. investment to the U.S. territories, as we continue to struggle to compete against even the most disadvantaged U.S. mainland community due to our unique and crippling limitations. The Congress can assist the CNMI in meeting its U.S. workforce targets by allotting additional federal resources to the CNMI labor force. Currently the majority of the funds dedicated to supporting the transition program, originate from employers within the CNMI through the additional fees required under the CW-1 petition process. If Congress wishes to see greater levels of success in this effort, more resources are needed.**

**If we were to look at the major economic issues facing the U.S. territories in the last decades of our histories, it is difficult to locate action by Congress that has showcased a proactive interest in supporting economic development among our communities. We do not wish to remain a problem to be solved by the federal government, but Congress must realize that there needs to be a new approach to territorial issues that is driven by a goal of viable, resilient and functioning economies within its U.S. territories.**

- 3. Congress passed the FY 2020 appropriation with \$6.25 million for the formulation and implementation of energy action plans to reduce the cost of electricity, stop the loss to island economies from purchase of imported fuels, and increase the efficiencies of your distribution systems. This a long over-due down payment on PL 113-235. The House has shown we are willing to invest much more. Our FY 2020 bill had \$12 million for all of you, but the final bill cut that in half. We need to hear from you. Are you interested in more help to cut the cost of electricity for your constituents and modernize your electrical systems?**

**The CNMI appreciates all assistance provided toward the reduction of our dependence on imported fossil fuels. We are approaching a period of great opportunity in the coming years, as we target this funding source, along with**

**additional resources provided through the federal government's response to Super Typhoon Yutu, to harden our power system and implement efficiencies that will support more affordable and consistent utilities services to our people.**

**We are certainly in support of any additional assistance Congress can provide and the need for such assistance is apparent. But it is also important to recognize that direct appropriations are a part of the equation. Congress can assist the CNMI in accessing greater resources within the financial markets to support financing for large-scale and necessary infrastructure spending. Increasing the total amount of CIP provided to the CNMI to an inflation adjusted level and ensuring consistent apportionments would open a range of financing opportunities presently unavailable due to our present financial condition. I additionally ask for consideration of territory-specific legislation from Congress that would greater incentivize U.S. investment into the territories as a means to find the necessary capital to modernize our electric grid and our general infrastructure.**

4. How is Interior and the Office of Insular Affairs helping your administration combat and prepare for the effects of climate change?

**The Office of Insular Affairs has been a consistent ally in our efforts to confront and respond to increasing weather events. The effects of natural disasters are profound and the impacts are spread throughout the nation. The response of the entire federal government to Super Typhoon Yutu has been of tremendous support to the CNMI and OIA has been a critical partner in this effort alongside the range of federal agencies that include FEMA, EDA and HUD to name a few.**

5. On February 7, 2020, the House passed legislation that would provide funding for the Earned Income Tax Credit in Guam, the U. S. Virgin Islands, American Samoa, and the Northern Marianas. That is worth \$11 million per year for the Marianas. But the White House says the President will veto the bill. President Obama came out in favor of EITC for the insular areas at the end of his second term. Where do you stand on this issue? Should we provide federal funding to pay our low-income working families?

**I support the extension of federal funding to cover the provision of the Earned Income Tax Credit to CNMI taxpayers. This administration maintains the year's long policy of the CNMI in requesting the federal government to recognize the disparity territorial treasuries face in the application of the EITC and the effects this program has on local budget resources. In 2016, Governor Torres requested the federal government's support under President Barack Obama to extend resources to implement the EITC in the CNMI and that request is present within the 902 report submitted to Congress. Further, Governor Torres supported legislation presented to Congress on the extension of the EITC to CNMI taxpayers. This is a critical program that would support families, and workforce development if federal funding was assured to ensure it is provision.**

6. Congress helped you avoid the Medicaid cliff with passage of Public Law 116-94 on December 20, 2019. The Marianas is getting \$60 million this year and \$60 million next year- 9 times more than we would otherwise have received and more than we have ever received before. Public Law 116-94 also reduced our local share of Medicaid from 45 percent to 17 percent- better than the matching amount for any state. Can you tell us how you are using all this new money to improve delivery of health care to our constituents?

**The Medicaid Program received a total of \$36 million in disaster relief funding at 100% Federal share. The disaster relief funds enabled the CNMI Medicaid program to make full payments to the Commonwealth Healthcare Corporation (CHCC) and other private providers in the CNMI.**

**Furthermore, since the CNMI Medicaid program had depleted its funds by September 30, 2019, the additional funds enabled the CNMI to satisfy pending payments to private providers, including off-island inpatient care, specialized consultation, laboratory, radiology, prescription drug payments, and others.**

7. Congress provided \$20.8 million for technical assistance to the insular areas last year. The administration keeps trying to cut technical assistance. The President's FY 2021 budget proposes \$14.67 million. OIA hands out that technical assistance money in response to requests from governors and others. Congress gives OIA free rein to decide. Would you prefer more control of that money? For instance, would you like some of that technical assistance slush fund put it into specific programs?

**In our collaborative relationship with OIA, we find we have open communication as to the direction of technical assistance funding to CNMI priorities. The current operation of this program provides necessary support to the CNMI with the primary limitation being the limited total amount of funding available. I would respectfully request the consideration of Congress to continue supporting this worthwhile program and find avenues to increase the total amount appropriated to support this necessary funding source for the territories.**

8. The Pacific governors know that the federal government made an error in how it counts the number of FAS immigrants in Hawaii. Because of their error, OIA has proposed cutting what American Samoa, Guam, and the Northern Marianas get in compact impact funding to make up for what Hawaii did not get in past years. Hawaii needs that money, but I do not think that the other insular areas should have to pay for the Census Bureau's and OIA's mistake. Do you think we should reduce the administrative budget of OIA to make up for their mistake, rather than making you pay? Does your Administration provide reports on the costs of hosting compact migrants?

Resources and attention should rather be directed to the issue of whether the authorized level of mandatory assistance is insufficient to meet the costs of services provided by each affected jurisdiction. I support the call of the other territory leaders in urging Congress to work with the affected jurisdictions to resolve this issue prior to the disbursement of future Compact Impact funds.

And while I disagree that the territories should be made to pay for the mistake of the federal government, I also believe it is unfair to penalize OIA, when the mistake did not originate from them.

9. A key feature of the U.S. Workforce Act (PL 115-218) is the annual spending plan the Governor puts together for the training fees that employers of CW workers must pay. The money is supposed to train local workers to replace foreign workers. Is the Governor's plan working as projected? How many local workers are being added to the workforce?

**The first annual plan for the expenditure of CW training fees is currently progressing toward full implementation. We are thankful for the cooperation the CNMI has received with the U.S. Department of Labor in creating the plan and look forward to utilizing the available funds to ensure more U.S. workers in our labor force. It is critical to note that the demand for workers is contingent upon the state of our economy. The CNMI economy is currently experiencing difficulties related to the effects of Super Typhoon Yutu, the outbreak of the coronavirus and the newly implemented requirements of the U.S. Workforce Act. It continues to be the position of the CNMI government that a good and growing economy creates opportunities for U.S. workers in our community.**

10. Another key feature of the U.S. Workforce Act is that OIA must report to Congress on what that agency is doing to help economic development in the Marianas. Do you agree with their first report? Are you satisfied with what OIA is doing to identify economic development opportunities for the Northern Marianas? Can you give us an example of how OIA is helping you?

**Economic development in the CNMI is difficult, as the strict limitations we face on land and resources are only compounded by limited access to labor and capital resources. The report of the Department of Interior showcases a brief but accurate narrative of the financial difficulties experienced in the CNMI and the Administration has been diligent partners in recognizing the needs of our economy. The report details the numerous grant programs and consultative support funded by the Department and the accounting of these programs is an accurate description of the help being provided to the CNMI.**

11. EPA was recently in the Marianas to plan for using the \$56 million for solid waste. Can you tell me what the plan is? Will Rota and Tinian finally get modern, environmentally appropriate solid waste systems?

**The CNMI Government, through the Bureau of Environmental and Coastal Quality (BECQ), Office of Planning and Development (OPD), Capital Improvement Projects (CIP), and Department of Public Works (DPW), are in ongoing discussions with EPA to formulate the Draft Strategy Summary and Initial Plan for CNMI Recovery and Solid Waste Management.**

**At this time, ongoing discussions are centered on the following proposals:**

- 1. \$1.1M - Update of CNMI Integrated Solid Waste Management Plan**
  - 2. \$2.6M - Increase solid waste staffing capacity within the CNMI**
  - 3. \$1M - Design and implement composting pilot project on Tinian**
  - 4. \$51M - CNMI solid waste infrastructure**
    - i. Close Marpi Cell 1; open Cell 2; construct Cell 3**
    - ii. Construct Tinian landfill**
    - iii. Construct Rota landfill**
12. How is the additional Nutritional Assistance Program funding being used? Do you have enough money to keep benefits at the same level as Guam?

**The disaster funding of \$25.2 million was allocated as follows: 8.68 percent (\$2,186,727) for Administrative costs and 91.32 percent (\$23,013,273) for Program Benefits costs.**

**A total of \$7,904,171 had been spent as of February 24, 2020.**

**Any costs incurred above the \$25.2M will be charged against the FY 2020 NAP Block Grant. Utilizing both funding sources, the CNMI will have enough funding to keep benefits at the same level as Guam for FY 2020. However, NAP is currently evaluating the income standards and benefit levels for FY 2021 with \$12.148M plus anticipated carryover funds of \$2,032,783 from the FY 2020 block grant and \$3,124,593 from the ENAP funds, roughly \$17,305,376 in total. With the anticipated funding availability for FY 2021, it appears that funding would be insufficient to maintain the Guam level in FY 2021.**

13. What are you doing with the water and sewer money?

**These funds will support fourteen well sites and for wastewater treatment plant rehabilitation for both Sadog Tasi and Agingan. The intent is to return them to their original design specification and operating condition so that CUC can get an additional 25 to 40 years of life out of those two critical facilities.**

**CUC will also be completing its water hardening efforts with installation of backup power supplies and building structures to house these units for up to 70% of the water supply system.**

14. How is the \$2 million for financial management being used?

**The Office of Grants Management will expand on its duties and responsibilities, specifically related to disaster recovery that is primarily focused on financial management, reporting, and compliance pertaining to all disaster-related funding. The Commonwealth Office of Recovery & Resiliency (CORR) is being established alongside a team of technical experts (contracted consultants) and will be working with the various CNMI Government Departments, Offices, and instrumentalities in order to maximize efficiency and productivity of recovery efforts.**

**The primary goals of CORR will include coordinating the implementation of disaster recovery programs; monitoring expenditure of all Federal disaster assistance programs; and tracking progress on all federal recovery program awards.**

**The grant will be utilized to fund activities of the CORR to help improve financial management coordination across each agency and organization receiving disaster recovery funds related to Typhoon Yutu. In turn, improvement of the financial management processes will help ensure:**

- Compliance with Federal grant regulations for financial and performance management;**
- Increased financial management accountability and transparency through reporting; and,**
- Improvements to the CNMI Government's overall administration of federal grant programs.**

**The grant will also be utilized to fund capacity building for financial and performance management across the recipient agencies of federal disaster funds (grantees) and others performing disaster recovery work through the following activities:**

- Hands-on training;**
- Workshops;**
- Strengthening of internal controls (policies and procedures) including capacity building (hands-on workshops)**
- Tracking tools such as electronic database, logs and spreadsheets; and,**
- Upgrading/purchasing of equipment and software, as applicable.**

Furthermore, the grant will be utilized to create and maintain critical reports on disaster funding for all interested parties. These reports shall be made available on a website and shall identify:

- **Summary total of federal awards per grantor agency;**
- **Detailed expenditures for awarded projects updated on a monthly basis; and,**
- **Elements of the Federal program and projects and the CNMI Government administering and user agency.**

Overall, the effect of the above CORR activities will be improved coordination and oversight for financial and program management at the grantee user agency level that may be adopted for all grant programs as applicable.

The CNMI Government is receiving multiple federal disaster grant funds to assist in the response, restoration and mitigation efforts across the territory as a result of Super Typhoon Yutu.

This request through the OIA's Technical Assistance grant will provide technical assistance with funding key fiscal management, accountability, and transparency activities related to disaster recovery brought upon by the major disaster declaration of Super Typhoon Yutu.

15. Are you having any problems accessing these funds that I put into the Disaster Recovery Act for the Marianas?

**No.**

16. What are your thoughts on the Prior Service Trust Fund? Should OIA continue to bankroll the fund? Should OIA keep using Technical Assistance Program grant funds?

**I support the United States' continued commitment to the hundreds of beneficiaries who previously served in the U.S.-administered Trust Territory of the Pacific Islands (TTPI), as these benefits represent a responsibility assumed by the federal government following the dissolution of the TTPI in 1986.**

17. Recently imposed austerity measures include 32-hour work weeks for government employees because of the significant downturn in economic revenue. How will this impact employees who are paid with federal program funds? How will cutting their hours help with the financial challenges?

**Tourism is the lifeblood of this economy. It funds necessary public services and provides jobs for our residents. When events such as Super Typhoon Yutu and the**

outbreak of the coronavirus impact this flow of resources into our economy, the entire community is affected. Both public and private sector organizations are reeling from this onslaught of economic disruptions, and nearly all employers are making the difficult but unavoidable decisions to reduce work hours. It is critical to note that federally funded employees work alongside locally funded employees, in the same office spaces and using the same pool of physical resources. It is not a prudent use of limited federal government resources to continue to open offices at a total capacity in which the programs funded cannot find productive use for the time being spent. As I have mentioned, the CNMI economy is in a difficult position. The steps we are forced to take have tremendous impacts to the nature of our community, but are required to ensure the continuation of government services, the proper use of federal resources, and the mitigation of financial crisis of substantially deeper proportions. The thoughts and assistance of Congress in supporting a more resilient and diversified economy in the CNMI is necessary, and should include all issues of Congressional jurisdiction, such as, limiting restrictions on labor and construction resources, providing greater incentives for U.S. companies to invest in the CNMI, and increasing federal resources in targeted areas to support economic stability, ameliorate structural inefficiencies present in small island economies and proactively supporting economic growth in lieu of tighter restrictions on economic activity.